

TOP SECRET

28 January 1955

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SITUATION SUMMARY

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CENTRAL INTELLIGENCE AGENCY

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China

Offshore islands (refer to map on next page): Since the capture of Ichang on 18 January, there has been little action near the Tachens. The Chinese Communists have increased their capabilities in this area, however, and further attacks could be made at any time.

The Communists already have consolidated their positions on Ichang and have established at least six artillery positions there. These guns began shelling the Tachens for the first time on 24 January. Meanwhile, the Communists have occupied two islets near Pishan, 35 miles southwest of Lower Tachen. The Nationalists are concerned over the possibility that artillery and mortar fire will be directed against Pishan from these islets.

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Despite the numerous indications that the Chinese Communists may be preparing for renewed attacks on the Tachens, further moves in this area may well be postponed in view of plans for evacuation of the Nationalist garrison.

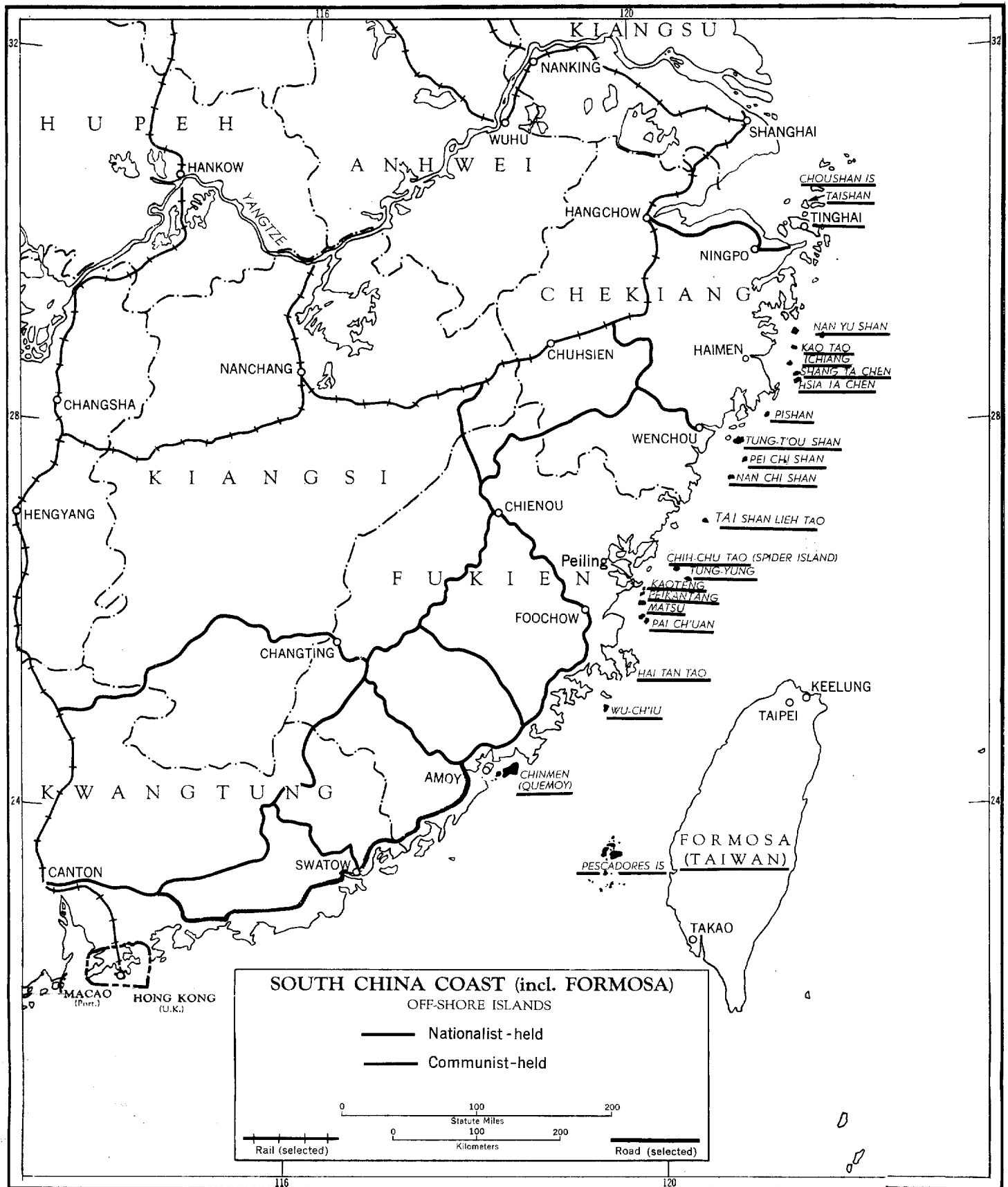
On 23 January, ten Communist junks approached Kaoteng, northernmost island of the Matsu group, but withdrew after being shelled by Nationalist artillery. Construction and repair of roads, barracks, field works, and gun emplacements during recent months on the Peiling Peninsula, north of the Matsus, suggests that the Communists are preparing to use artillery against the three main islands of the Matsu group.

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Peiping's denunciation of cease-fire proposal: In a statement issued on 24 January, Chou En-lai reaffirmed the determination of the Chinese people to "liberate their own territory" of Formosa and emphatically rejected the possibility of a cease-fire in the Formosa conflict. Chou declared that the dispute is not within the jurisdiction of the United Nations, since it is an internal affair of China. He accused the United States of "engineering a conspiracy" through the United Nations to intervene in the "liberation" of Formosa.

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The statement made by Chou on 24 January was repeated in the Soviet and Satellite press. Soviet propaganda has attacked the US for perpetuating its "occupation" of Chinese territory and denounced American motives in seeking a cease-fire, but the possibility of United Nations mediation has not been condemned outright.

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East Europe

Rumored political and military conferences: Reports of the movements of various Satellite political and military figures have caused the circulation of rumors that Orbit leaders are conferring in Moscow regarding implementation of the final declaration of the Moscow Security Conference. In that rather vaguely worded declaration, the Bloc countries stated that, if the Paris agreements were ratified, they would "adopt joint measures in the sphere of organization of their armed forces and their command as well as other measures required for strengthening their defensive power"

None of these reports has given a specific time or location of an Orbit meeting, and it was to be expected that, following the Moscow Conference, there would be a wide variety of unconfirmed reports and rumors of a Bloc meeting. Developments pointing to Orbit planning sessions include the following:

-From 29 to 31 December, Parliamentary delegations from Czechoslovakia, East Germany, and Poland met in Prague to discuss common measures for the "defense of peace."

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-The Rumanian Minister of Armed Forces has not been seen since 7 November, and the Soviet Military Attache has made no public appearance since 22 December.

-The East German Foreign Minister has been absent from his office since early January, and there have since been frequent press references to the acting Foreign Minister.

Since the first of January, there have also been unconfirmed reports that high military and political officials in Hungary and Poland have been missing from their offices or attending conferences:

[redacted] the Hungarian Defense Minister attended a conference in Moscow from 1 to 8 January. The Soviet Ambassador to Hungary left Budapest about the same date. [redacted]

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Rumors of currency reforms: Numerous reports have been received in recent weeks of impending currency reforms in several of the East European Satellites. The general failure of the Satellite economies to meet production targets for consumer goods and the disproportionate rapid advance in purchasing power have resulted in increased inflationary pressure. It is believed unlikely, however, that currency readjustments are imminent in any Satellite except East Germany.

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East Germany's economic policies, which have resulted in a widening of the gap between purchasing power and the supply of consumer goods, have caused the GDR to increase its currency in circulation from 3.5 billion to 4.7 billion eastmarks during the first fifteen months of the new course. Therefore, any effective currency reform would have to eliminate some of the currency outstanding in East Germany, since only a relatively small amount is held in West Berlin. Although the widespread hoarding of currency is a matter of concern to the regime, it has not yet resulted in sufficient inflationary danger to make a full-scale currency reform necessary, especially in view of the adverse effect such a measure would have on labor morale, which the new course is trying to improve. A limited currency readjustment designed to strike at large hoards of funds and at currency held in West Berlin is more likely, although even such a limited measure would have an extremely unfavorable effect on the population.

Rumors of an impending currency reform have been circulating in Poland for several weeks. Poland has made reasonably good progress in expanding the supply of consumer goods, however, and the gap between purchasing power and the availability of goods does not appear large enough to require a currency reform at this time. There have also been scattered rumors of currency reforms in Hungary and Rumania, but it seems unlikely that Rumania would adopt such a measure soon after its recent abolition of rationing. In Hungary, however, the regime has admitted that inflationary pressure was controlled during 1954 only by living off inventories, and the value of the currency is estimated to have declined by about two thirds since the 1947 currency reform. Despite the economic rationale for a currency reform, however, it would produce such widespread disaffection among the workers and peasants that it seems unlikely as long as the new course is continued.

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Hungary

Planned increase in industrial production: An official of the Hungarian National Planning Office announced on 14 January that the 1955 output of heavy industry is to increase by six per cent, while the output of the light and food industries is to grow by nearly seven per cent. This does not necessarily reflect a change in new course policies, but indicates an effort to correct the serious imbalances in the Hungarian economy which developed in 1954 in preparation for the new five year plan to start in 1956.

Heavy industrial production suffered an absolute decline during 1954, as a result of the decrease in labor productivity and in the supply of raw materials and manpower. At the same time, the output of light and food industries increased by only eight to ten per cent rather than a planned 16 per cent. Hungary will have to achieve its planned increase in heavy industry primarily by directing more raw materials and manpower to heavy industry. Even if the scheduled six per cent increase should be realized, it would mean that total heavy industrial output would be only slightly above the 1953 level.

In a 25 January speech, Rakosi stated that, while there will be a gradual development of agriculture, Hungary will "vigorously continue Socialist industrialization" during the Second Five Year Plan scheduled to begin in 1956, although at a slower rate than during the first few years of the First Five Year Plan. At the same time, Rakosi and others have indicated that the 1955 plan will continue the overall new course policy.

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East Germany

New Border Alert Units: Two new Border Alert Units have been organized recently in East Germany, raising the number of these battalion-sized formations to 24. The new units are located at Eisenach and Oschersleben, near the West German border.

The assumption of such duties by East German Border Police would indicate that the USSR is gradually turning over more security functions to the East German authorities.

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General

New international signature campaign: For the first time since 1950, when the Stockholm appeal was launched, the World Peace Council has initiated an international signature campaign. This new appeal against the "preparation of atomic war," inaugurated at the 19 January WPC session in Vienna, follows the line of the Stockholm appeal. In addition, it demands the destruction of stockpiles of atomic weapons in all countries and the immediate cessation of production of such weapons. WPC members have voiced their hope of obtaining one billion signatures in the drive and have emphasized that these endeavors should be conducted simultaneously with efforts to prevent the rearming of West Germany. A Pravda editorial gives unusual credit to the Stockholm appeal for having prevented the use of atomic weapons in Korea.

The tenor of the recent WPC speeches and resolutions reflects the recent shift in propaganda concentration from "peaceful coexistence" to criticism of the West's alleged preparations for the atomic war which West German rearmament is said to foreshadow. An appeal to the people of Europe demanding actions to thwart ratification of the Paris accords was formulated at the same session.

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USSR

Soviet annual plan report for 1954: The Soviet annual plan report announced on 21 January reveals that economic growth in 1954 was considerably greater than in 1953, primarily because 1953 was a year of transition to the "new course" program. Much of the Soviet Union's economic growth is still being achieved, however, by larger additions to the industrial labor force than originally planned and by a considerable expansion of areas under cultivation. Both industrial labor

productivity and crop yields per acre are well behind originally planned goals.

Gross industrial output increased 13 per cent over the previous year as compared with increases of 12 per cent in 1953 and 11 per cent in 1952. It is probable that the Five Year Plan goal for gross industrial output will be reached by the middle of this year. The picture is less bright for specific branches of heavy industry on which information is available. The so-called "leading links" of industry -- coal, oil, metallurgy, and electric power -- will barely achieve the ambitious goals of the Fifth Five Year Plan. In the Fourth Five Year Plan, the output goals for the "leading links" were all substantially overfulfilled.

The report claims that the planned goal for petroleum was fulfilled in 1954, although the figures given indicate that the rate of increase is well below that needed to fulfill the Five Year Plan, suggesting that the plan may have been revised downward. Furthermore, output of synthetic rubber increased only slightly in 1954, and the planned growth in this expensive, strategic industry may have been cut below the rate originally envisaged. Despite substantial increases, the growth of several other important individual fields of Soviet industry -- notably pig iron, certain nonferrous metals, some types of machinery, rolling mills, and chemical equipment -- has fallen behind schedule. This suggests that growth in these branches of heavy industry has been adversely affected by the successive superimposition upon an already ambitious Fifth Five Year Plan of a combination of such factors as the military build-up attendant upon the Korean War and the increased emphasis since mid-1953 on the agricultural and consumer goods sectors of the economy. The resultant strains may be the basis for the recent increase in emphasis by the Soviet press on the importance of heavy industry and for the sharp attack by Pravda's editor on Soviet economists who have advocated the development of light industry to the detriment of heavy industry.

The total volume of capital investment increased by 15 per cent over the previous year, indicating a rapid recovery from the adjustments and shifts undertaken in 1953. Nevertheless, the physical plan for new construction was not fulfilled, and actual construction costs continued to exceed planned costs. The Fifth Five Year Plan calls for a volume of investment 90 per cent higher than in the Fourth Five Year Plan (1946-1950). This goal may well be attained; but, because of chronic failure to reduce construction costs sufficiently, the cost of the construction program will be considerably more than had been planned.

The report states that, as a result of successes in newly cultivated land areas, the 1954 harvest of grain, the most important crop, was larger than in 1953. The increase was probably small, however, since the report gives no specific figures and admits there was a severe drought in the Ukraine and Volga regions. On the other hand, the proportion of the total grain harvest procured by the government has probably increased significantly for the first time in the postwar period, primarily because of an increase in procurement prices.

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In general, plans for both production and trade turnover in durable and semi-durable consumer goods have been overfulfilled, but output and trade in processed foods have increased by little more than half the amount scheduled.

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Advance scheduling of Supreme Soviet: The convocation of the regular meeting of the Supreme Soviet on 3 February, about a month earlier than usual and on somewhat short notice, suggests that the Soviet leadership may make an announcement of importance to its own people and to the rest of the world. It may be significant that the meeting has been scheduled in advance of crucial debates in France and West Germany on ratification of the Paris accords. The announcement also came in the midst of several unusual developments bearing on foreign policy, internal economic policy, and the status of the "collective" leaders, all of which may be inter-related:

-The USSR has recalled for consultation a large number of Soviet diplomats including the ambassadors to France, East Germany, Great Britain, the United States, Turkey, and Iran. The ambassadors to Austria, North Korea, Hungary, Czechoslovakia and some of the other Satellites may also be away from their posts. Vinogradov, Ambassador to France, has since returned to Paris. Presumably, these men were called to Moscow either to help formulate current policy, to get personal instructions on its implementation, or to participate

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in Central Committee or Supreme Soviet meetings which, for some important reason, would require their presence.

-The Presidium of the Supreme Soviet decreed the end of the state of war with Germany on 25 January, 15 days after a conciliatory Soviet statement on Germany hinting at the possibility of international supervision of free elections. Soviet propaganda for West German consumption has stressed that the decree improves possibilities for peaceful unification of Germany; continued Soviet control is implied, however, by the statement that rights under Potsdam and other agreements were not affected. The decree removes legal blocks to East German rearmament and to GDR participation in an East European security pact. In this latter connection, reports of the absence of several Satellite defense ministers from their capitals may indicate that conferences of Satellite military leaders have taken place.

-The World Peace Council, which met in Vienna on 19 January, launched an "appeal to the peoples of Europe" demanding action to thwart ratification of the Paris accords. This meeting was followed in Great Britain by strong Communist demonstrations against the accords. In Italy, [REDACTED]

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[REDACTED] the Communist Party is scheduling a strong campaign against Italian ratification, including the calling of a general strike when the debate reaches the Senate.

-On 24 January Pravda editor Shepilov attacked the Soviet economists who have advocated the development of light industry to the detriment of heavy industry. Their views were termed "rotten" and "anti-scientific" particularly at a time when "reactionary forces continue to arm and to nurse plans for a new world war." The editorial, following a similar one in the January issue of Party Life, was the sharpest to date on this subject. It is of special interest because Shepilov had been censured in December 1952 by Party Secretary Suslov for supporting Voznesensky's theory on the simultaneous development of all sectors of the economy.

-The 1954 plan results published on 21 January indicated that the growth of some important segments of Soviet heavy industry is lagging.

-On 24 January the Presidium of the Supreme Soviet announced that it had "granted the request" of Deputy Premier A. I. Mikoyan to be relieved of his duties as Minister of Internal Trade. Although this may be a normal shift, the timing

suggests that Mikoyan, who like Malenkov is closely identified with the consumer goods program, is being censured in this fashion to advise the public of a new line on consumer goods. If this is the case, it may foreshadow the announcement of key personnel shifts at the Supreme Soviet meeting. On 24 January, however, Mikoyan's name was included on a list of leaders who were advising local electoral commissions of the RSFSR of the districts in which they had chosen to run. On 26 January Mikoyan was present along with some of the other Soviet leaders at a reception in the Indian Embassy in Moscow.

-The name of A. A. Andreev was included on the 24 January list of leaders. With the exception of Andreev, all those on the list were either members of the Party Presidium, the Party Secretariat, or Deputy Premiers. Andreev is a former Politburo member and Deputy Premier who handled agricultural affairs before Khrushchev. In 1950, he was accused of advocating "erroneous" theories about agriculture, and he was dropped from the Presidium in 1952. The return of Andreev to prominence would appear particularly incongruous at a time when certain signs point to Khrushchev as currently the most powerful of Soviet leaders. [REDACTED]

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